Revised Edition

A Protest against
The Fifty-Year Experiment in
Mixing Politics with Finance
Proposed by the Aldrich Monetary Commission

SEPARATE RESERVE ASSOCIATIONS

Non-Political, Preventive of Financial Panics Suitable to all American Conditions

BY
J. HOWARD COWPERTHWAIT
Author of
Money, Silver and Finance
(1892-1896)

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The very valuable library of financial works written at the instance of the National Monetary Commission shows that we need financial reform but does not show the way to get it. The Aldrich Plan is not a necessary outcome of the investigation. For instance, the argument of the experts is in favor of a concentration of banking reserves but the degree of concentration is a matter for further and more careful consideration. A **single** reserve centre suits England, suits France, suits Germany; but it does not follow, therefore, that a **single** reserve centre would suit the United States with its great variety of interests and its vast area, about twenty-five times as large as that of England and about seventeen times as large as that of France or Germany. In our case something may be said in favor of the **diffusion** as well as in favor of the **concentration** of reserves. The author claims that the proper degree of either is to be found in **Separate Reserve Associations,** as distinct from the one association, with branches, suggested by ex-Senator Aldrich and accepted by the Monetary Commission. The Aldrich verdict does not appear to be in accord with the testimony as to degree of concentration or of diffusion of reserves. And the political features of the Senator's plan are without any expert backing and must be taken only as his own creation. This gives us the right to look into these features for a new form of Aldrichism. If the old combination of politics and tariff-schedules might possibly be succeeded by a new combination of politics and finance the public should reject the Aldrich Plan, no matter what its good points may be. The political dangers involved in the Aldrich Plan will be treated after we have closely studied the financial problem itself.

SEPARATE RESERVE ASSOCIATIONS

The author of this pamphlet had the honor of appearing before the Banking and Currency Committee of the House of Representatives, on February 4, 1908, in advocacy of the enlargement of the duties and privileges of clearing house associations and of a plan for depending upon them to give us general financial reform. As clearing house associations had always gotten the country out of financial difficulties, it would seem natural to suppose that they could keep the country out of such difficulties if given the legal right to do so. In the light of further study and reflection, assisted by the publications of the National Monetary Commission, particularly those regarding English finance and all European open discount markets, this present plan has been evolved and is now offered but with no thought that it may not easily be improved or that important errors may not be pointed out. There may still be room in the American Cemetery for Financial Plans but the plan to outlive the others must, in the opinion of this author, grow out of the American clearing house system and without politics being grafted upon it. Critics may say that a better plan would have been offered if French, German and other experiences in central banking, had been as fully drawn upon as English experiences, but a fair answer would seem to be that those other experiences might prove to be misfits when brought to America: the French, because a large portion of French business is done with money rather than checks, French bankers not yet drawing all the little hoards of money into their tills; the German, because we could not tolerate in America the meddlesomeness of the officials which people are used to in Germany; and the financial experience in still other countries than England is unimportant because of every other country's lack of a

vast internal and external trade. English finance, on the contrary, on account of its extreme fineness of development and because it has proved suitable to a people used to a great volume of trade and who care as much for individual liberty of action as we ourselves care, may well be drawn upon for our guidance, yet with the fullest recognition that American business, American politics and American life have their own distinctive characteristics and to which American finance must conform.

As monetary panics do not occur abroad where there are central banks to provide new money and new credit, and where there are open discount markets for the sale and resale of commercial and financial paper, it would seem to be evident that no statement of our financial problem could be complete without specifications of our lack of a supply of new money and new credit in time of need, and also our lack of open discount markets for financial and commercial paper at all times, and that any good plan of financial reform must give due consideration to the need of establishing open and broad discount markets as well as to the building and filling of reservoirs of new money and new credit. Perhaps, however, we are reasoning too fast as to the certain need for both new money and discount markets since the record shows that in England the discount market works so well in connection with the Bank of England that the reservoir of new money has not been tapped in half a century; and, that today, the volume of paper money in England remains as fixed by the Act of 1844, that is at less than the equivalent of $100,000,000, excepting only such paper money as has the nature of gold certificates, the growth of British trade and industry having had to depend upon the importations of

gold and upon the expansion of credit. English experience does not indicate **certainly** that we need a great supply of new money but that we need either that or manipulative financial skill, exercised by a central institution in open discount markets and for the benefit of the whole community. The getting along without **emergency** money is the best proof that the English system is favorable to the development of financial ability which is available for the **public** benefit and not only for **private** or **corporate** benefit.

It can not be disputed that the expansion of credit in all Europe has proceeded most generously in the open discount markets where endorsed notes and accepted drafts are sold and resold over and over again, and, therefore, it should be worth our while to ascertain why we have no such markets in this country. The inquiry may be worth while even if we learn that it must be a long time before we see any discount markets of European breadth. It may not be out of place to add that interest rates in England are usually lower than in our country, although we have twice as much money per capita.

There is a fundamental difference between American and foreign business customs, including English, and this difference gives a different character to the commercial paper created on the opposite sides of the Atlantic. Abroad, merchants buy goods on credit and give an acceptance on time-drafts, to cover the bill of sale or get bankers to accept for them, thus creating "prime bills" of exchange. These bills, originating in certain mercantile transactions, with two names on them, the drawer and the acceptor and sometimes getting many names, are considered suitable for the investment of any idle funds, and when approaching maturity

these bills become very choice for temporary investments. The discount market is so broad that nobody in buying such bills need fear that he may not be able to sell them should he, himself, be in need of funds before the bills mature. Here, on the contrary, the general custom with exceptions in a few lines or in country districts is to buy goods for cash, less a cash discount. The buyer provides himself with the necessary funds by selling his note through a broker or by getting his own bank to discount it; the note, in either case, being more suitable for its new owner to hold until its maturity than to resell, for to attempt to resell the note is possibly to excite suspicion of its value, or, maybe, to excite distrust of the strength of the bank which tries to resell. When banks resell paper, the transactions, as a rule, are in small circles among institutions habitually working together. It will be noticed, too, that while American commercial paper is supposed to arise from the need of manufacturers and merchants to obtain funds to pay for merchandise, yet each piece of paper has not on its face the evidence of such use of the funds. Our kind of paper, when made in Europe, is avoided by bankers because of its possible financial character, as distinct from the desirable commercial character. But however advantageous to the further development of American industry and commerce, might be the changing of the quality of our paper so as to give it a better chance to become easily salable and resalable, it must be admitted that American business methods are not at all likely to be changed and therefore that American paper will continue to be drawn somewhat as at present. The cash discount which a buyer deducts, in paying for goods, is generally twice as great as his loss of interest upon his own note, which

he sells or puts through his own bank, and so the buyer will continue to pay cash. On the other hand, sellers who are in the habit of getting cash for their goods, less a cash discount, neither could nor would insist upon being given notes or acceptances instead of cash. We must therefore consider the possibility of the development of open discount markets for paper, any piece of which may or may not have arisen directly from a commercial transaction; and, certainly the prospect is not bright and may be spoiled by mistakes. Senator Aldrich proposes to confer upon national banks the right to accept time-drafts arising from commercial transactions, but as neither drafts nor notes arise in great volume **directly** from commercial transactions, it would seem to be better to say **directly or indirectly,** allowing both qualities of paper, or better still to limit the total sum to be risked by any bank, in any one direction and proportionate to capital, saying nothing about the quality of the paper to be accepted or to be endorsed. In England, there is little or no restriction upon bank action in such a matter as this, and I think that in the future we will control banks less by law and more by public opinion, exercised through clearing house associations or reserve associations. Of course, however, we are not going to lose sight of the fact that banks use the money which belongs to their depositors and, therefore, that there must be some adequate supervision.

It seems pertinent to the question of the wording of law regarding the origin of commercial paper to say that **"wash-sales"** of merchandise might be popularly considered sufficiently legitimate parentage for notes and drafts born in distressing circumstances. A, B, and C, merchants in good standing and having close business relations with each other and adequate banking facilities,

could obtain, say, $30,000 by the sale and re-sale of $10,000 worth of goods:—A would bill to B 200 bales of cotton, for instance, the title passing with a warehouse receipt, A drawing on B at 90 days and B accepting the draft or getting his bank to accept for him; for a slightly different sum, the transaction would be repeated from B to C and again from C back to A. With the payment of the three drafts, interest included, and the settlement of differences on a "gentlemen's agreement" the incidents would be closed, the merchants having had the use of the money and the banks having used their reserve association, if necessary. The above transactions would take place only in a tight money market because no merchant would like to have his name upon $20,000 of paper in order to get the use of $10,000. Probably necessity would be the mother of simpler inventions to enable merchants to get money from banks and to enable these to reimburse themselves from reserve associations. It seems to me that the words **"arising from commercial transactions"** might delay the establishing of open discount markets so long as money should be easy and banks and merchants scrupulously exact; but I think that the spirit of the provision would be nullified in the first period of serious financial disturbance.

Some other considerations come to mind regarding the establishing of open discount markets in America. In ordinary times there would be a scarcity of double-name paper because the sellers of merchandise would not like to offer their own names linked with the names of their customers and thus furnish information to competitors. And buyers of merchandise would try to avoid buying of those sellers who offered their bills receivable for sale, the buyers preferring to use the

discount market for their own names whenever finding it convenient to do so. Then the market itself might discriminate against double-name paper because the logical conclusion from the above reasoning would be that two names linked together meant lack of strength in one or both or that the market was already full of either one or the other name. This point would not be applicable to drafts bearing a merchant's name as drawer and a bank's name as acceptor. Such paper as this might, in time, become standardized as it is abroad and the market get used to absorbing all the paper that should be offered with certain well-known acceptors' names on it. I have no hopes for the immediate establishing of open discount markets in America but I am sure that we ought to be careful to take the right steps toward their establishment because of their great desirability. The wording of the proposed change in the law should be as liberal as safety will permit. Some good bankers are sure that National Banks should not be permitted to accept any time-drafts but if such permission is not given there may not be created enough accepted paper to make a market worthy the name. And there is this to be said: if we establish reserve associations, some state banks and some bankers might get into the habit of accepting time-drafts and in such case it would be unfair to shut National Banks out of the business.

It is not easy to over-estimate the importance of inducing the general lodgment of idle funds in commercial paper instead of in call-loans. At present so much money often is put out on call that the rate of interest falls to two per cent. per annum; while, at other times there is so little money for loaning in this way that the rate may soar to one-half of one per cent. per day

Abroad, the same sort of funds is put into commercial paper to a very great extent because the paper can be resold whenever it is advisable to resell, the broad discount market thus serving the purpose of our call-loan market. The rate of interest does not change suddenly in Europe, the reason being that a slight advance operates at once as a check upon the production of commercial paper, merchants everywhere watching for changes in the bank rate and varying their own activities accordingly. Here, on the contrary, an advance in the call money rate merely excites curiosity as to what Wall Street is doing, merchants continuing to buy goods about as usual and relying upon their banks or their note brokers to find the necessary funds. These are forthcoming until there is a very general scarcity and then comes a crash. The difference of vital importance is the foreign **gradual** hardening of money rates as compared with American **sudden** hardening of money rates. In this connection we may add that if National Banks were not permitted to send so much of their legal reserves to reserve cities, but were obliged to keep a larger portion than now in their own vaults, the fluctuations in the rate of interest would be less wide and less violent; but I do not imagine that it would be easy to get banks to consent to give up their present privilege, although it may be contended that there would be some compensation in an improvement in the average rate of interest.

In Europe, the open discount market and the central banking institution are in close touch at all times and neither could exist well without the other. The great market absorbs the bulk of the commercial paper and prevents an avalanche of it from reaching the central bank. The central bank standing always ready to re-

discount paper or to loan money upon securities, the amount of money which it would furnish being practically unlimited, gives stability to the discount market by its assurance against any such mal-adjustment of the money-supply to the money-demand as we know under the name of "currency famine" which, of course, is a misnomer, the more suitable term being, say, currency voraciousness, since it is the appetite for currency which increases and not the quantity of currency which decreases. But although a comparison of European with American financial conditions indicates that we need a central bank as well as a discount market yet a study of American ways and American financial history shows that we can not have any such bank. American politics destroyed the first Bank of the United States in 1811, and the second in 1836. Several years ago a very important commercial body sent an investigating committee abroad and this committee reported in favor of a third experiment, the establishing of a central bank, and then the parent body adopted its committee's report; but, so far as I know, not a single statesman of any prominence has been so lacking in the instinct for his own political preservation as to attempt seriously to create public sentiment in favor of the centralization of banking power and influence, at least under the name of bank. The Aldrich Plan is for a national reserve association with branches and with some banking duties and privileges, and it remains to be seen whether this is too much like a central bank to find favor in the present period of general decentralization and of nationwide destruction of the ties which bind together the component parts of trusts and amalgamations. From the political standpoint it would seem to be much easier to get congressional favor for the establishing of many

reserve associations than for the establishing of one great association with many branches.

The development of open discount markets and with them of the principles of central banking would proceed more naturally, however slowly and uncertainly in any case, in our country of vast and varied interests, if there were established **many** reserve associations, than if there was established only one with many branches, at least the matter so presents itself to me. Banks and bankers are not going to accept drafts and endorse notes at the low rates of commission which the business could afford unless there is perfect assurance of the smooth working of all the financial machinery, operating under the central banking idea. There must not be any fear of hitch or delay under any conceivable circumstances. Senator Aldrich names Washington as the headquarters of a central reserve system and at once we have difficulty, for New York is the financial centre of the country, and banks and bankers, all over the land would continue to keep balances in New York without regard to any new scheme. Therefore, when a dangerous situation should appear, either the managers of the New York branch would act quickly and without regard for the Washington headquarters or would waste valuable time in explaining matters to Washington officials and getting their advice although these officials would not necessarily be in such intimate touch with financial affairs as to know what advice to give. I should think that the most important assistance in central banking which might be given by such head officials as should be located in Washington, would be the vigorous wielding of an O. K. rubber stamp and that they might be denied even this exercise excepting for a few months in the future crises that may irregularly cor-

respond with '37, '57, '73, '84, '93 and 1907. Of course it can not be expected that the Aldrich Plan would increase the frequency of panics and so give the officers enough to do to keep them out of political mischief. On the other hand, it is not likely that the country would consent to the choice of New York for the headquarters of central banking as many persons would think they could see Wall Street domination in that. But if New York, Chicago, St. Louis, New Orleans, Kansas City, San Francisco and other financial centres, probably more than fifteen, the number named in the Aldrich Plan, should be treated as separate reserve centres, no political or other objection ought to be raised. Also it is reasonable to suppose that future political control of separate reserve associations would be impossible although quite probable for one association with branches, especially if the one should have headquarters in Washington, the country's political centre. And if any unforeseen evil should be found in any separate reserve association it could be easily corrected by the Government while an evil in a great reserve association, ramifying through the whole country, might be too closely associated with an evil of governmental administration itself. The best chance for the development of great discount markets seems to lie in each market having its own reserve association to depend upon in time of need, the managers in each case, being closely in touch with local conditions, understanding the value of local securities and of local commercial paper and standing ready to act quickly and intelligently and with no more consideration for politics than is ever shown by the officers of any one of the clearing house associations throughout our country. The development of such broad discount markets as should command the confidence of European

bankers and investors would be of incalculable benefit in giving steadiness to our rates for money. An advance in the discount rate at London now draws funds from Paris or Berlin and an advance in the discount rate at New York ought to draw European funds with almost equal rapidity, now that we have five-day steamships. A great New York Reserve Association would be able to give the necessary assurance to foreign money lenders both as to security against loss and as to the employment of funds for definite periods, sufficiently long to warrant the expense of their transfer. Between foreign institutions and a New York Reserve Association or other large American associations there could be intercourse by cable without fear on the part of foreigners of American political interference in decisions. There could be swift and wholly business-like action. To all the difficulties in the way of establishing American discount markets we should not add even a remote chance of political blight.

Separate reserve associations would have no need for a uniform rate of rediscount or a universal rule as to the securities which might be accepted or the quality of the paper which might be rediscounted. Any uniformity which is suitable for countries of very small area like England, France and Germany might not work well here. In a land of so great extent as our own, securities which are well known in one place might be unknown in another; and at any given time, the same rate of interest, discount or commission might be too high in one place and too low in another. Under the amended Aldrich plan, farm mortgages are considered suitable security for some time deposits, and surely, if there is to be any practice of this nature, it ought to be confined strictly to the localities which want it and which

are willing to pay whatever penalty, if any, the practice may exact. I presume that those persons who want such a privilege are the ones who insist that reserve money should not be loaned upon stocks and bonds, although I do not see any advantage to the country in making panics as severe as possible **in the large cities.** However, bankers D, E and F would be acquainted with the merchants A, B and C, to whom I have already referred, and could borrow warehouse receipts against the security of stocks and bonds and thus obtain a basis for drawing drafts, against each other in settlement of "commercial transactions." There is presidential precedent for the violation of the **spirit** of law in a financial crisis.

Monopolistic control of separate reserve associations would be as impossible as it now is of clearing house associations for each member-bank and member-trust-company would have one vote as is now the case in clearing house associations, no regard being given to the comparative importance of different members. If each reserve association existed only by virtue of a **federal** charter there would be the same governmental supervision as there is now over National banks and any monopolistic tendency in any association could be promptly checked.

Separate associations would exchange reports and general courtesies because the governors of all associations would be actuated by a similar motive, that of steering their respective communities clear of financial disaster. The competition among banks, in seeking business, would have no counterpart among reserve associations, the object of these being the promotion of prosperity and it being evident that any financial mishap in any place might make trouble in many places. It

would be natural for these associations to help each other even more than the Bank of England and the Bank of France help each other. Financial tranquillity in either country is advantageous to both countries. It seems possible that in due time our separate reserve associations would make telegraphic transfers of funds among themselves. How natural it is for a reserve centre to help another reserve centre and so help itself by restoring **general** confidence was illustrated recently when there was warlike talk in France and in Germany. France drew on its credits in Germany but extended its credits to American bankers these in turn favoring German bankers, these last being assisted thus without offending French anti-German sentiment.

Each reserve association would act quite as much for the benefit of all its member organizations as does each clearing house association but should act also for the benefit of the community; and, to be able to do this must have the confidence of the community. Therefore it is desirable that the officers of reserve associations should not be **only** officers of component banks, but that the rule of the Bank of England be followed so far as possible in keeping active bankers out of its court of governors, the public thereby counting upon disinterestedness in any action of the central body, no group of financiers being able to get its assistance against any other group or for the purpose of accomplishing any **coup de finance.** Altruism is important in central banking as further shown in the rule of the great English bank, allowing only one vote to a stockholder, not allowing the customary vote per share, for while the bank must earn dividends it must also serve the country. For instance, it must keep idle a large reserve against the temptation to increase its loans and so earn larger

profits. In our case the more or less general belief in the existence of some sort of a Money Trust makes it seem to be imperative that our reserve associations shall be largely run by individuals pecuniarily disinterested. The public might be satisfied, however, if a board of governors were made up of merchants and bank officers even if all of them were actively engaged in their own pursuits. In my judgment the best men would be chosen in any event for the managing of separate reserve associations but I should like to be assured that the public would have absolute confidence in their disinterestedness.

In the management of the Bank of England too, there is another good point which could be copied by separate associations:—the Government has no voice and as the Government's voice is sometimes only the politicians' voice it is important to note that the officers of separate reserve associations would not naturally affiliate with government officials, while the officers at a headquarters in Washington would almost necessarily get some political bias. Finance and politics make an undesirable compound, extremely dangerous under imaginable conditions. Under the Aldrich Plan four government officers have important places although central banking is not a governmental function, properly speaking. The statesman's place should not be to assist in managing but to watch for unfairness in management, in order to expose and correct it. He should have no chance to become a factor in unfair managing and so be in a position to cover it up.

An association of national scope must have a headquarters; and, while London, Paris or Berlin is the unquestioned place for a central office in England, France or Germany, being the financial centre, in each country,

respectively; yet, those who advocate an American **national** reserve association look upon New York, our financial centre, as an impossible place and choose Washington, a city which has no comparative importance in business or finance, and which is objectionable because it is the seat of government and the hot-bed of political activity. To my mind, the unsuitability of the United States for a **national** reserve association is indicated also by the fact that nobody takes any interest in the choice of St. Louis, rather than Washington, for the present centre of population is near to St. Louis and may soon be nearer. Still, if we are to look ahead regarding the centre of population we must consider the claims of Kansas City and that city, indeed, has a distinct claim because it is only a short distance from our geographical centre. If, however, we have **separate** reserve associations each one would have whatever importance may belong to it, now, and would have its own fair chance to grow in importance. The Monetary Commission's amendment to the Aldrich Plan reducing New York's and the whole East's fair share of influence, is also an indication that our country is too large for one great association, fairness having to be sacrificed to political exigency.

Each reserve association in this country would have sufficient strength for its locality, in the capital and surplus of the institutions composing it, supposing those now in clearing house associations to become members. We should have a New York Reserve Association five times as strong as the Bank of England, the most influential bank in the world, a Chicago Reserve Association of greater strength than that great bank; and, everywhere, we should have associations corresponding in strength to the needs of their communities. The

$450,000,000 capital and surplus of the New York Reserve Association, however, would be the sufficient assurance to all banks and bankers, that their New York balances certainly would be shipped to them promptly when ordered and in currency or other form as desired, as **hereinafter specifically provided for.** Such an absolute assurance would generally prevent the actual ordering of the shipment, for among banks as among customers of banks, the demand for money grows with the fear of delay or fear of trouble in getting it, any supposed elusiveness in money exciting the grabbing instinct. In this connection it should be noted that the New York financial situation has been greatly improved since the panic of 1907 by the taking of trust companies into the Clearing House Association, for instead of being a menace, they now add to the strength of the great financial body. A New York possible demand for money has been changed to a New York extra supply of money, to help meet the country's demand. And the country's crop-moving demand will not press very heavilv upon New York in the future. Factories spring up in great crop-growing states and make an all-the-year demand for both money and banking facilities, large portions of the crops being consumed near their places of production. It is true also that greater crops will be grown in the manufacturing states when we learn better how to run farms on the intensive principle. The alternating eastward and westward tidal waves of currency will become unimportant currents.

The personnel of **separate** reserve associations in every community would be the very men who best understand financial conditions at all times, men of the sort who are chosen by clearing house associations to act upon loan committees in critical periods. They might

almost be named in advance. And mere personnel may be of incalculable importance at any moment, for banking is somewhat of a psychological science and what is in the public mind or is skilfully put into it, at exactly the right moment, may make people generally leave money in banks, instead of taking it out of banks as otherwise would be the case. In the panic of 1907, it was not the officials in Washington who knew what to do and how to do it; nor, in the future, is it likely that there would be found any greater ability or greater knowledge at the Washington headquarters of a national reserve association than at the various separate offices of many associations. A difficulty appears in the circumstance that the most desirable men for governor, and deputy governors would be those earning large salaries or having large incomes from their own businesses; but, reserve associations could afford to pay well for freedom from panic or for reliable information and judgment to correct panicky tendencies in advance. And the most desirable financiers would be tempted by positions of the highest honor and the greatest responsibility. The cost of maintaining separate reserve associations would be minimized by the discovery that their officers' services consisted principally in standing ready to act. For many years running it would happen that banks would have no occasion to re-discount paper. It might not be necessary to make the same rule as to personnel for each association; or, each association might make its own rule and change it too when advisable to do so. And also, as before intimated, absolute disinterestedness might be found to be attainable without taking many individuals wholly out of their regular occupations.

As all the good features of rediscounting and central banking could be put in operation through possibly un-

objectionable legislation and by amending certain laws now on the statute books, it would seem to be advisable under present political conditions, to strive for financial reform in this way rather than by the unnecessarily comprehensive Aldrich Plan. To deal with the national bank note question, for instance, is not necessary now that the Government has stopped the issuing of the kind of bonds upon which new notes might be based. The bank note question will grow less and less important as the country's trade grows larger and larger, quite as the greenback question has lost importance through the fixing of the total of greenbacks at $346,000,000, a total which once seemed very big. Then too, no scheme of currency reform need say anything about gold, for gold will take care of itself in any commerical country which makes this metal the standard of value and which gives gold coins and gold certificates plenty of room in the circulation. With a foreign trade about fifty per cent. larger than our own, and with an enormous "unfavorable balance of trade," so called, England gets and keeps all the gold she needs, simply by limiting the amount of paper money which may be issued, the minor movements of gold being affected by the skill of the governors of the Bank of England and through their changes in the Bank's rate of discount. And no scheme for financial reform necessarily needs to have that provision of the Aldrich Plan which gives the custody of the Government's money to a central institution instead of to the many banks now used as depositaries.

We have a law now which provides for emergency currency to be issued to National Currency Associations composed only of national banks and it should not be impossible to extend this law beyond its 1914 expiration and to amend it so as to recognize local reserve associa-

tions composed of banks and trust companies. These associations should be incorporated under a new **federal** law carefully drawn to exactly suit the case and the new money should be engraved in their names instead of in the names of the banks, the government disbursing officers being empowered to take such security and commercial and financial paper as is now provided for and also the guarantee of these reserve associations, the limit of new money for any association being determined by the capital and surplus of such association. Of course, the Government should be as absolutely secured against loss as it is under the present law and while there must be much more certainty than there is now that the emergency money would come out instantly and without even a chance of possible delay, yet an apparently contradictory point must be well covered also; the emergency money **must not come out** unless there is a real emergency. In England, it has been learned by experience that there is no need for emergency money (which over there means the suspension of the Bank Act of 1844) until the rate of discount rises to 10% @ 12% and until this high rate shall have induced an inward flow of gold; and, as a 10% rate is sufficient to bring gold "out of the ground," there has been no suspension of the Act in half a century, as before remarked. Admitting, of course, that any rate of discount or interest which would be high enough in England might not be high enough in America, yet we must see that the English principle of increasing the rate for money, in order to cause a reduction in the demand for it, is scientifically correct. Certainly it could be followed here if we pay sufficient attention to American conditions. In each of our **separate** reserve associations, the financiers in charge would have both local and general circumstances

in mind and if unhampered by unnecessary rules would develop the skill of Bank of England governors. It would not take very long to learn that if new money should come out too cheaply it might serve only to heighten speculative fever or to increase the exportation of gold, while, on the other hand, if a large amount of new money is not in sight people will hoard what they have. The tremendous importance of the personnel in central banking is apparent if we consider all the effects of changing the rate of discount or interest. The highest order of sagacity and disinterestedness may be secured for the management of independent reserve associations, just as it is now for the committees of clearing house associations, but it is unlikely that our best financiers would be ready always to act under the instructions of men at any headquarters, however selected or if appointed by the President, for sometimes in the past it has happened that even secretaries of the Treasury have been appointed more on account of political influence than on account of financial skilfulness. In New York, and I presume elsewhere, the highest order of financial talent would claim the most implicit trust and reliance on the part of everybody concerned and would stand no outside guidance or interference. In my opinion a prime fault of the Aldrich Plan is the reliance upon the wording of law to do that which only can be done by the most gifted financiers acting on their own judgment. We shall not have our finances right until we enlist our greatest financiers in the country's service.

The cost of new or emergency money would be high because the Government should be compensated for its expense and because the reserve associations should be paid for their guarantee. Graduating rates of three, four and five per cent. per annum would seem to be fair

for the Government, the rate increasing as an association increased its takings of its allotment, and the charge to run from the date of issue to the date of return of the new money, or the date of deposit of other money instead, for the identical money might not find its way back. The charge of a reserve association to one of its components should depend upon circumstances; and in a critical time might vary from day to day, the changes being ordered in accordance with a swiftly changing situation. While the Government's charge should be fixed and the duties of every government disbursing officer be accurately defined by law so as to leave no opportunity for judgment on his part, such officer not necessarily possessing any, yet the widest possible latitude should be given to the chosen heads of a reserve association, these persons being selected for the very reason that they would know best what to do in an emergency. At one time, they might simply state that an expert and disinterested investigation had shown the soundness of a certain institution; at another they might put the association's endorsement upon a bank's paper for a small fee; at another, they might take over two or three banks' assets and put cash in their place to meet a run of customers, and, here again the charge would be low if there were no ultimate risk; but, at still another time, or if there should be continued financial disturbance after ordinary action had proved to be ineffectual, then the guaranteeing or rediscounting charges should grow heavier, making the process correspond to the well-proved Bank of England methods, the greater and greater cost of new money inducing everybody to get along without it so far as possible. Panics are not uncontrollable because of a high rate of discount or interest, this expense being merely for short periods

In New York there could be no panic if people knew that $450,000,000 were instantly available no matter what the expense of getting it. And with a secure feeling at the financial centre there would be no feeling of insecurity anywhere even without any other reserve associations although it would be as well to have them. For instance, the Chicagoans would enjoy feeling that $100,000,000 of emergency money was available for them at a moment's notice. Banks and bankers are not entitled to a supply of cheap money, whenever they ask for it. for that spells inflation but they are entitled to the assurance of being able to get new money when they are willing to suffer a penalty for their over-confidence or for the over-trading of their customers. Merchants have to pay fire insurance premiums all the time and bankers should not object to an assurance charge once in a while. Nobody is exempt from the danger of losses to come from the carelessness of others.

Some bankers and some merchants object to any tax upon emergency money, the merchants, especially, wanting low interest rates, all the time. But is it not plain, if an abundance of new money could have been got in 1905 and 1906, **without additional expense,** that prices would have been carried higher; that speculation would have exceeded much further the bounds of prudence; and, that the crash of 1907 would have been still more disastrous than it actually was? Financial history says this, I am sure. And interest rates could not have been kept down, for always and everywhere, high interest rates belong to periods of active trade and speculation. Perhaps it may be some consolation to merchants who want low interest rates, to reflect that low interest rates go with low rates of profit. Lenders of money in old and comparatively non-progressive commercial coun-

tries, take little risk and get little compensation. In these same countries, there may be found low rents and low wages. Better be satisfied with those American progressive activities which make rents, wages and profits high, while giving a fair share of the general income to the banks and the individuals who keep capital to lend and who thus help along the general prosperity.

It seems advisable that each reserve association should have a working capital, each member, bank or trust company being permitted by law to contribute a definite portion of its own reserve. The keeping of a certain percentage of deposits as a reserve belongs to unscientific banking, the approved way being to concentrate the reserve and then to let the highest order of financial ability decide how large it shall be, the magnitude of the reserve changing with the pulsations of trade and finance but the master minds always watching the reserve and all the influences which affect it. In England, no bank is obliged to tell what portion of its reserve is in its vaults and what portion stands to its credit at the Bank of England. The business men of New York would enjoy greater financial security if, say, $100,000,000 were taken from individual bank reserves and placed in the vaults of a New York Reserve Association, to be used without question or interference, whenever the officers in charge should desire to use it, partly or wholly, for what they considered to be the interests of everybody in the community, not only the interests of banks, in a narrow view. In other centres the working capital would be proportionally less but I believe that everywhere there would be sufficient concentration of available cash in the hands of expert and disinterested persons, to overcome the ordinary financial disturbances without resort to the emergency money in the hands of government

disbursing officers. Each reserve association might decide for itself what portion of a bank's reserve should be contributed for general use and benefit. Isolated banks feel the need for cash in hand more strongly than do banks which have many close and friendly neighbors. The advantage of prompt action in finance is sometimes the same as that of prompt action in small fires. We fully recognize that a very little fire may grow into a conflagration and some time we shall learn that almost any financial disturbance can be so skilfully treated as narrowly to limit its influence. Something of the sort happens now when great banks or bankers cure the "sore spots" on the financial body, by substituting cash for other assets but such work as this should never result directly to the benefit of individual banks or bankers—the whole community's benefit should always be the sole consideration. It may fit the case to say that we need Financial Boards of Health and that they must be composed of the most skilful and unselfish doctors of finance.

There is good reason for leaving to the future, the coordinating of our various kinds of paper money, although we have greenbacks which ought to have been retired long ago, silver certificates which never should have been issued, national bank notes which slightly increase or decrease in volume, when they should do the reverse; and, although we have gold certificates which represent an ever increasing hoard of gold in the Treasury. The incongruity is not picturesque but we may do well to notice that the greenbacks and the silver certificates do not increase; that the increase in national bank notes, in a whole year to January 1, 1912, has been only $1,144,950 or a fractional per cent. of the total of such notes; and that the increase in the volume of gold

certificates may be looked upon with equanimity, at least by everybody who took part in any of the struggles for sound money which began soon after the Civil War and had to be continued to the victory of 1896. There are no terrors in contemplating the fact that the volume of gold certificates, in circulation, has grown in a single year from $849,174,639 to $906,944,367; and I see only satisfaction in the estimation that gold coins and gold certificates now make up about forty-seven per cent of the total circulation, whereas, at the time of the resumption of specie payments in 1879, these moneys amounted to only about fourteen per cent of the total. The process of increasing the percentage of gold money to all money is likely to continue unless we interfere by new legislation; and, it is quite probable that legislation, if effective in putting new paper money into circulation, might really substitute such new money for gold or gold certificates at least to an important extent. It is hardly within the ordinary power of law to increase the whole circulating medium but well within its power to drive gold out of the country. It is estimated that we have $3,267,575,322, total circulation, and I am afraid that some people reason that the gold portion, $1,520,971,-273, should give us a total circulation of about $4,560,-000,000, instead of only $3,267,575,322. It is easy to demonstrate, however, that the $34.47 per capita which suits us at the present time would suit us as well under different laws. In other words, if by any banking arrangement, in operation during the past decade or two we had come into the use of a circulation consisting of only one third gold, the difference would be the present European possession of over $400,000,000, gold, instead of the present American possession of this sum. We should have exported this amount of gold, and,

as an offset, our exportations of merchandise and securities would have been somewhat less than they have been and our importations of goods somewhat greater. And in the future, economy in the use of gold must have a similar effect, merely the substitution of paper for gold and the releasing of gold for exportation. I should think it much better to go on accumulating the metal even if for no other reason than the comfortable assurance of being strong enough, monetarily, to keep upon the gold basis through any great war, instead of slipping off to the paper basis, as in 1861.

I see no advantage in hurrying to decide whether new paper money shall be issued by one association or by many associations or by either, the requirement of elasticity in our volume of paper being satisfied by the provision for emergency money, to come out when needed, and, to go back when not needed. We are growing in wealth and population and if we continue to accumulate gold we shall gain ground for hoping to become the world's financial centre. With the annual production of gold increasing and with the American production up to about $100,000,000 worth from which we can take about $70,000,000, per annum, for use as money, it is folly for us to try to estimate how little we can get along with. If gold production goes on increasing, we might, sometime in the future, redeem all our paper, excepting gold certificates; while, on the other hand, if gold production should decrease, we should not be compelled to join in a new "scramble for gold" that would soon develop. If there is to be no inflation under the Aldrich Plan then it is receiving at least some support by a misunderstanding; but in so far as the plan is an inflation measure, it must be expected to have the result of throwing away our golden opportunity instead

of actually producing inflation. The aim of the Aldrich Plan appears to be a paper money circulation based on a fifty per cent. gold reserve, all the money in the country eventually to consist of one-third gold and two-thirds paper.

In the interest of frankness the name National Reserve Association should be dropped or else the banking duties and privileges should be abandoned. The proposed institution should be called a **bank** if it is to receive and disburse the Government moneys, if it is to take the Government's place in the issuing and the redeeming of paper money. A reserve association does not necessarily do these things nor does it necessarily have a long-term charter. It may be that to call the institution a **bank** would kill its prospects but that would be better than to get the thing chartered through deception. The word **association** is properly used by the American Bankers Association and by the various clearing house associations but can not be properly used by a **bank of banks** or a government bank to be fastened upon us for **fifty years!** Separate Reserve Associations are entitled to the word association because they would attempt nothing but the work suitable for associations and could be easily dissolved.

So far there has been no political danger for the Aldrich Plan. It seems to be too heavily mortgaged to be a good political asset and, besides, when a political party shall see a net value in it, that party will put the Plan into its platform without regard for the wishes of the Plan's advocates. The supposition that in the event of the final adoption of the Plan, the National Reserve Association would keep out of national politics is a supposition which is not based upon the records of American financial history nor upon an observation that

American political doors stand always open with the WELCOME mat in front. And I do not believe that the people who claim that a National Reserve Association would remain out of politics have accurately forecast the questions which are likely to come before the American people. It is not necessary to say that an Andrew Jackson will gain the presidency although that is quite likely, nor need we say that an "Old Nick" Biddle* will have to fight for the very existence of the Association or for the retention of the Government's deposits or for the privilege of continuing to issue and redeem paper money, although anything of this nature is likely enough. We have to notice only that questions of property rights are constantly gaining in popularity and that public opinion is susceptible to the influences which would radically change it. In the early part of the nineteenth century the Supreme Court held that slave property was as sacred as any other property. In a few years from now public opinion may so greatly favor the extraordinary taxing of land and of corporations, including banks, as to force even a gradual change in the personnel of the Supreme Court. There is a general spirit of restlessness under the operation of existing laws and while we cannot foresee the direction of the movement for changes, we may predict that a conservative political party would have the support of about all the banks and the bankers in the country in case of a serious attack upon what we understand to-day as property rights. In such case how could there be any doubt of the course of the officers of a National Reserve Association, living in Washington, daily associating with a conservative president, four of whose ad-

* Jackson's designation for President Nicholas Biddle, of the second Bank of the United States.

visers were also officers of the Reserve Association? It seems to me to be certain not only that the Washington officials of a National Reserve Association would try to throw the influence of the Association to the side of conservatism but that they would surely succeed in doing so. It would be made to appear that the proposed change would so disturb general business and so cut down the value of property as to bring about panic and general disaster and there would be banks and business men who would think it perilous not to be ostensibly upon the conservative political side. After a political upheaval at all like the above the National Reserve Association would be an adjunct of the conservative party and never could escape the connection. Nobody can foresee the whole course of American progress but nobody should want it guided or limited by the power of finance. This power went into politics to help us get the gold standard: upon another and a very different occasion, it might act **against** instead of in favor of the true interest of the people. We want no nationwide organization of banks ready in some close congressional or presidential contest to use banking influences to thwart the will of the people; possibly, in a particularly bitter campaign, curtailing the credit of obnoxious individuals and institutions. No political party should have the power to perpetuate itself through the power of money and the power of credit. The old Aldrichism should have no successor in a new Aldrichism. The American people should recollect that at first protection seemed harmless and wholly beneficent, but, that under it there developed a partnership between some politicans and some beneficiaries of the tariff. We want no new partnership between any financiers and any politicians nor do we want any chance for

its formation. To overthrow a banking oligarchy the country might fly to violent socialism. The people must **always** reserve to themselves the right to change any laws and without having to fight the money power organized into a unit of strength. Let us keep this power divided and keep the government free to correct every evil tendency.

If now we take a new and broader view of the subject of financial reform we shall get new evidence of the superiority of a system of **separate** reserve associations over a system of one great association with branches. We need immunity from nation-sweeping hallucinations as well as from acute monetary crises. Our people always have had a mania for a plentiful supply of money and generally have been careless about the quality of it although at the time of the founding of our Government, more than two centuries already had elapsed since Sir Thomas Gresham made the discovery that a superior quality of money would be driven out of circulation in any country, by an inferior quality, unless the latter were limited in amount. It is not true that Americans know less than other people about monetary science but it is true that Americans have need for greater knowledge. It seems not to have occurred to our statesmen, financiers and educators that we vote almost directly upon financial questions and that we ought to be taught how to vote upon them. It is disgraceful that so late as the end of the nineteenth century, our financial quacks were able to find more patients than our medical quacks. No sound-money campaign against bi-metallism and against free-silver-coinage would have been necessary if our people had been properly instructed in school and college, but it is nevertheless a fact that both houses of congress swallowed the nostrums of the quacks.

Money has been the thing which everybody wanted and nobody understood and even now there is no certainty that the coming generation will be very much better informed than the generation which nearly wrecked our national honor.

If, too, we consider the banks rather than the money, we find a corresponding popular misapprehension. In the first half of our national life, banks were tolerated as necessary evils; in the second half, we commonly think of them, only as contrivances of the rich, for adding to their riches. It is possible for a boy to get through school and college without learning a great deal about the difference between a toy savings bank and the savings-bank on the street-corner, and there are numberless well-educated people, as education goes, who do not understand the services which are rendered by the banks of discount and deposit. There has been, always, a generous feeling for borrowers, often expressed in legislation but legislation is not apt to favor the banks, although they are borrowers as truly as they are lenders. And the banks are entitled to especial consideration for borrowing only the money which its owners can not use and lending it to the individuals who are able to use it. By the necromancy of banks, the money which you do not want now but may want, at any moment, is given greater facility for use by yourself, through your check-book, and is placed at the disposal, also, of somebody else, the usefulness of your money being nearly or quite doubled. The total of bank-deposits is near enough to the total of bank-loans to warrant this statement, the reserves of the banks being largely the capital and surplus which belongs to the stockholders. The loans of the New York Clearing House Association banks exceeded the deposits, in the panic of 1907. In modern

trade and industry, the banks have become the indispensable lubricators of the whole machinery; and, the workman who knows that his little machine would "freeze solid" if not supplied with oil or grease, ought to have been taught before leaving school why factories have to stop running when the work of the banks is disturbed. Workmen are ready to ask for legislation for their own benefit and might be shown not only that banks are their best friends but that banks earn dividends exactly as workmen earn wages, workmen giving useful employment to idle faculties and banks giving useful employment to idle funds.

There can be no question of the desirability of general enlightenment in a land of universal suffrage but any suggestion of means to the end is a proper subject of controversy. And, naturally, criticism must be expected for the new idea that **separate** reserve associations could be used in an educative way. It is significant, however, that education in America depends upon **separate** schools and **separate** colleges and therefore it will not do to assume that no connection of any sort can possibly be established between our educators and the officers of **separate** reserve associations. At present, financiers may take little or no interest in the curriculum of any school but this does not prove that they never will take much interest, for against such a supposition may be placed the fact that men of large affairs do serve upon Boards of Education. Financiers are as public-spirited as other busy men but no way has been open for them to aid our educators. And, too, there is a prejudice against men who are successful in finance. Doubtless also there are localities where socialism has gained control of some teachers and professors and these persons would be suspicious of anything coming from bank officers, for bank

officers belong to the conservative class. Difficulties will be found in the way of showing our youth what they ought to be shown of rudimentary financial principles but if they are not shown, then there must continue to grow the power of that sort of political capital which some day will measure its strength against financial capital. However, the cause of education is not hopeless for if we establish **separate** reserve associations, we should have as their governors men who know all about financial subjects and yet in whom the general public has absolute confidence. In any locality, a governor of a reserve association could make it known that the welfare of the banks is bound up in the welfare of the people; and, in due time, he could get put into text-books or at least into the syllabuses for teachers enough to make a beginning in financial instruction. A good governor of a reserve association would be willing not only to do his best for his association in his own time, but to help his association in the future, and he would see that education is an important ally in preserving that financial orderliness under which trade and industry make their greatest progress. Education in finance is like education in other matters; knowledge creates thirst for more knowledge. A youth to whom is explained the intrinsic value of gold money and the promissory character of other money, will be likely to learn, before he is able to vote, what it is which gives full purchasing power to bits of paper; and, as the chances are ten to one that he will be a wage-earner and not a wage-payer, he will be ready to vote to receive only that money which is as good as gold. A youth who is taught something about the work of banks of discount and deposit, at the time he is taught "Interest and Bank Discount", may have his curiosity excited to learn more on

the subject and by the time he is able to vote may have a good appreciation of banks as public servants, and not be willing to listen to demagogues who, for their own ends, would harass the banks as well as other institutions of civilization. A reserve association as a Financial Board of Health would not overlook the rapidity with which young people become factors for good or ill.

The advantage which **separate** reserve associations, as educators, would have over a national association will be apparent if we look back on the silver lunacy. Congressmen went crazy and if there had been a national reserve association, at Washington, the officers would have been divided among themselves. Bi-metallism might have been given a favorable word in school-books with the result that our present-day voters would have the trouble of unlearning much of what they were taught when students. As a source of information upon any subject which has been or may be a political question, a **national** association is liable to be a failure or an instrument for harm. To illustrate this point we may fancy any **national** association attempting to teach the principles of taxation and trying to be non-partisan between the advocacy of revenue duties and the advocacy of high protection. While it should not be denied that some one of all the **separate** reserve associations might help to spread a heresy yet it is certainly true that the lack of authority of any one over the others would limit the injury, in both extent and duration. Competition among **separate** reserve associations to promote enlightenment on the principles of money and finance would be started by the most enterprising association actually getting some of the simplest axioms put into some school books. Another association, learning of this, would be able to make an improvement of some sort; and, there-

after, no backward step would be possible. The **separate** reserve associations of our country in the course of natural progress, would become the recognized sources of information and our educators would be supplied with what they have lacked hitherto, fountains of financial truths, unpoisoned by the suspicion of either politics or selfish interest. We cannot say what may be the form of the next financial insanity to afflict the American people but we may be sure that education is the only preventive of the affliction, whatever its peculiarities may prove to be.

An experiment of great and far-reaching importance is involved either in establishing a **national** association with branches, as proposed by Senator Aldrich, or in establishing **separate** associations, as herein proposed and, this experiment involves a new use of finance, the most subtle, pervasive and powerful of all the forces of modern life. In arranging to use a force which no potentate may ignore and which every government must consider before beginning either constructive or destructive operations, caution seems to be in order. Mistakes will be made in case either proposition be adopted; but, in one case, mistakes may be rectified easily, while in the other they might be very serious and very difficult to overcome. A **national** association, with some presidential appointees; with the privilege of receiving the Government's money; and, with the duties and advantages pertaining to the financial agency of the Government, including the issuing and redeeming of paper money, would have power which the country, later on, might have good reason for wishing to withdraw exactly as it had good reasons for not renewing the charter of the first or the second Bank of the United States. Now the withdrawal of power or privilege, once

given, is sure to be difficult because those who enjoy it are in position actually to use their power or privilege in the effort to keep it. Witness the difficulty of lowering any rate of duty, in any tariff schedule, and how the **need** for reducing the duty on any article really **increases** the difficulty in the way of reduction. If, however, errors should be made in establishing **separate** reserve associations, the Government would be free to correct them. The point of the matter may be put this way: if we should establish a **national** association with branches and should find out, upon trial, that we ought instead to have established **separate** associations, great obstacles would be found in the way of dissolution; while, on the contrary, if we should establish **separate** associations, it would be comparatively easy to bring about their amalgamation, should the people so desire which is not to say, however, that I think the people ever would be so foolish as to so desire. The charters of **separate** reserve associations could be amended or revoked by act of Congress; whereas, the charter of the **national** association, under the Aldrich Plan, is to be given **a half-century of life** with the congressional right even to amend recurring **only once in ten years**! And what political power and abuses of power might not be developed in ten years by the few men who would come to the top in the National Reserve Association? How could there be an adequate organization in opposition to the will of these men, in order to amend the charter excepting in a way satisfactory to them? Twenty years was the allotted life of the charters of the first and the second Banks of the United States; and, neither bank was able to get authority to live any longer although each bank begged for it. There was no question of solvency: the people found out that they did not

want a financial institution of **national** scope. Ordinary commonsense would seem to make it unnecessary now to find this out again by a third experiment.

Considering the temper of the present Congress, is there any chance, whatever, that a measure with the Aldrich stamp upon it, could go through both houses without amendment? How often do any bills of any kind become law without amendment? And what is more natural than to expect in this case, an upsetting of the balance of powers? I should think it quite likely, for instance, that as Senator Aldrich puts presidential power and influence into central banking, the Congress will consider it proper to favor its own branch of government and give controlling influence to the Finance Committee of the Senate and the Banking and Currency Committee of the House. This would not be so fantastic as the Aldrich idea of using the Secretary of Agriculture and the Secretary of Commerce and Labor. I fear that many of the bankers who favor the Aldrich Plan will have reason to regret their precipitation when Congress shall finish the amending. Every bill is subject to amendment in its course through Congress; but a bill to establish **separate** reserve associations would not be greatly harmed by amendment, because in its original form **all** power would be left in the hands of the Government, no skillful balancing being attempted. And, too, even if a satisfactory bill should be passed establishing a **national** association, with finance and politics accurately balanced, we should still have to expect that in actual operation the balance would be upset in our country of rapid growth and marvellous changes. Financiers may have political aspirations and politicians financial hopes. It is not without reason that the English Government has no voice in the management of the

Bank of England, and that the positions of principal and agent are carefully preserved. It is because, in banking, there is no suitable place for any government officers. This is the verdict of two centuries' experience.

In view of the shortness of the time that any plan for financial reform has been so placed before the American people, as to lead to general discussion it would seem advisable not to attempt this session, anything more than the amending of the National Bank Act, leaving radical action until after the presidential election of 1912. A fair start toward the development of open discount markets for financial and commercial paper could be made by giving permission to banks to place their acceptances upon time bills under very carefully drawn restrictions. A second amendment of the Act, should be the granting of permission to banks to count as legal reserve clearing house loan certificates, to the extent of one-half of the required reserve. No money has ever been lost by the use of these certificates; and, the security back of them makes it impossible to see how any money ever could be lost by them. The effect of this amendment, applying it to banks of the central reserve cities would be to release in time of stress, over $200,000,000, a sum considerably larger than the total of certificates issued in these cities in 1907 Loan certificates come out only in panicky times and never stay out very long and have no element of inflation. The knowledge that they could be counted as reserve would make banks more generous in loaning in the earliest critical moments and thus helping to ward off panic. These changes in the Bank Act would give the country the benefit of another year's study of our unparalleled financial problem and make more probable the chance of a true solution. It would surely appear a

year or so hence, that the Aldrich Plan involves too great political danger and that the Aldrich machinery is unnecessarily ponderous for the correction of a panic, and far too ponderous for the development here of that manipulative financial skill which, in Europe, has proved to be capable of warding off panics. Even the enthusiasm of the American Bankers Association might not last any longer for the Aldrich Plan than it lasted for their own plan offered some years ago. I should think too, that these amendments to the Bank Act might bring about important changes in the monetary problem itself and greatly simplify it. It would be very advantageous both to have a simpler problem to solve and to know better how to solve it. Financial reform concerns everybody from the capitalists and merchants who want safety and profit, to the laborers who want steady employment but we can all do better without financial reform than with the new sort of Aldrichism to be developed under the Aldrich Plan. Congress should take a preliminary step, at once; and then should allow time to be taken by the people, to more fully and more generally comprehend the whole financial question, the advocates of any plan of financial reform taking the chance of its survival, as the best in the interest of the commonwealth. Unbusinesslike nervousness can not justify any haste to make **a fifty-year experiment** in a matter of transcendent importance to ninety millions of people. Fifty years is a long time for the leisure of repentance!

New York, January, 1912.

EXTRACTS FROM REVIEWS

OF

MONEY, SILVER AND FINANCE.

A Book by the Same Author.

(New York World.)

His claim is clearly sustained by his comprehensive argument.

(New York Herald.)

Mr. J. Howard Cowperthwait has put into small space and plain language the conclusions of the business world as to some subjects which politicians and charlatans have wrangled over for the last few years.

(New York Morning Journal.)

It is an excellent book of the sort that a man of ordinary mentality may read without confusion, yet showing a thorough understanding of economic laws.

(New York Times.)

It is a very valuable book. We know of none which is so well calculated to make the general truths of finance plain to business men, or their detailed but constant application to business intelligible to students who are not business men. . . . The author's facts and arguments march with the steady regularity and force of a well-directed military column.

(New York Tribune.)

Mr. Cowperthwait has the tremendous advantage over most reasoners on the silver question that he knows something about practical business, its methods and necessities.

(New York Observer.)

It is a common-sense argument. . . . We hope it will be widely read.

(The New York Daily Stockholder.)

It possesses the elements necessary to make converts to sound-money principles of those who are undecided in their views.

(Wall Street Journal.)

The author treats a wide variety of topics from the standpoint of a gold advocate, but with a liberality which permits him to quote freely from opposing views.

(Sunday Democrat.)

It is a pity that he is not in Congress, for he has a faculty of making the most abstruse point in finance clear and interesting. . . . The best work that has yet appeared on the subject.

(The Examiner.)

He does his work well. As a business man, he knows and makes clear what would be the effect of free coinage of silver; and he has so far mastered the literature of finance as to make his book profitable reading even to those who are fairly well informed on the subject already.

(Engineering and Mining Journal.)

His style is very engaging, and the book holds the interest of the reader from first to last. The chapters on the balance of trade, foreign exchange, and the debtor class, are especially good.

(Scientific American.)

Such a writer has evidently the courage of his convictions, and such a quality is a commendation of his book.

(American Banker.)

Mr. Cowperthwait has had ample opportunity, coupled with ability and application, to study the silver question and kindred financial problems which have so puzzled the law-maker. The book in question is a carefully condensed treatise which throws much light into the dark corners of the finance labyrinth.

(Independent.)

The author writes as a business man, and states with much force and sufficient argument the case against the free coinage of silver by our Government.

(The Congregationalist.)

We heartily agree with him, and commend his treatise.

(Outing.)

Whether or no the reader is convinced, he will certainly profit by the author's labors.

(University Magazine.)

His chapter treating of the foreign exchanges shows wide and intelligent acquaintance with fact. The book, although eminently opposed to the "free silver" movement, is, in its matter and argument, of such intrinsic value as to be well worthy the careful perusal of all interested in the subject.

(New York Morning Advertiser.)

The book in question is a carefully condensed treatise which throws much light into the dark corners of the finance labyrinth. Prices, wages, bi-metallism, the free coinage of legal tender silver, international exchange, the balance of trade, the volume-of-money theory, and a dozen allied chapters, are handled in an exhaustive manner. Every student of finance should have the book upon his desk.

(New York Evening Telegram.)

The opinion fully expressed of a business man upon a question which politicians are ignorantly playing with.

(New York Press.)

A thoughtful and comprehensive survey of the present financial condition of the United States. . . . A timely and helpful contribution to the economic literature of the day.

(New York Commercial Advertiser.)

Mr. Cowperthwait's treatise is clearly written and his argument well put.

(New York Journal of Commerce.)

The book contains an interesting history and discussion, accompanied by tables, of the movement of prices, the relation of prices to wages, the balance of trade and foreign exchange, the "volume of money theory," and allied subjects.

(Brooklyn Eagle.)

It is evidently the result of wide reading, much reflection, and accurate observation, supplemented by practical business experience. . . . It deserves the respectful consideration of all business men.

(Brooklyn Standard-Union.)

Col. Cowperthwait's book will do much valuable service in the cause of honesty and honest money, and is most timely. It is concise, with the directness and precision of a business man.

(Brooklyn Citizen.)

It certainly covers the ground in a comprehensive way.

(Brooklyn Life.)

Col. Cowperthwait's illustrations are excellent. . . . He succeeds admirably; the argument is clear and logical, brief, and to the point.

(Norwich Bulletin.)

The subject is so plainly and comprehensively handled that any man of ordinary intelligence can grasp it.

(Bedford, Mass., Standard.)

It is a common sense book, and will be widely read.

(Yale Courant.)

The lucidity of the argument and the broad treatment of the question by the author, make the work worthy of perusal and of careful thought by those who have no well-defined idea of why they are opposed to silver legislation.

(Providence Journal.)

With remarkable compactness, clearness and precision of style, he manages, within 230 pages of large print, to make the general truths of the principles of currency perfectly plain to the average degree of intelligence, and to say about all that need be said on the silver question from the purely national point of view.

(Springfield, Mass., Journal.)

The chapters on the balance of trade and foreign exchange are of special interest.

(Worcester, Mass., Gazette.)

A clear and intelligent explanation of many of the points which the country is now discussing.

(Boston Journal.)

No better presentation of the present condition of the silver question has yet been published; . . . an argument that is instructive, intelligent, and so cleverly stated that those best informed in the subtleties of finance can follow it with continued interest.

(Boston Advertiser.)

The author's style is simple and direct. . . . The first characteristic of Mr. Cowperthwait's book, however, is readableness. . . . The highest praise that can be accorded this book is that it is thoroughly sound, and that there is not an uninteresting word in it.

(Boston Globe.)

In the volume is given the detail of what might be termed a running fight with Senator Stewart and others on the money question, and the reader, of whatever opinion, can praise the author for the fairness with which he states his opponents' case, or allows them to *state it,* which is better still.